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C O N F I D E N T I A L SECTION 01 OF 02 RIYADH 000704

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NEA FOR DAS GGRAY
DEPT OF ENERGY PASS TO M WILLIAMSON
TREASURY PASS TO A/S CLOWERY
CIA PASS TO TCOYNE

E.O. 12958: DECL: 04/30/2018

TAGS: [EPET](#) [ENERG](#) [SA](#)

SUBJECT: CHEVRON LIKELY TO WIN RENEWAL OF PNZ CONCESSION

REF: 2007 RIYADH 1624

Classified By: DCM MICHAEL GFOELLER FOR
12958 1.4 B, D, AND E

Summary

¶1. (C) After almost two years of protracted negotiations, offers, and counteroffers, Chevron finally sees light at the end of the tunnel in its quest to renew its joint venture Partitioned Neutral Zone (PNZ) concession. Arabian Chevron Business Manager Mohammed Ayaz has confirmed to the Embassy that the firm is likely to win renewal of its operations for a 30-year term. Resolution of the Kuwait National Petroleum Company (KNPC) refinery siting issue seems to have cleared the way for the final extension of the Chevron concession. While the timeline for a signing ceremony remains under development, Ayaz indicated Chevron hopes to bring CEO O'Reilly to the region to finalize the deal by late May or early June. Chevron has asked us to maintain this information as confidential until it is announced publicly. End summary.

Renewal Agreement Caps Two Years
of Negotiation

¶2. (C) While Chevron does not yet have a written agreement with the SAG, Ayaz has indicated they have a "gentlemen's agreement" with the Ministry of Petroleum and Mineral Resources which they hope to tee up for signing by June. Chevron's 40-year concession for the last foreign upstream oil operations in the KSA was due to expire in 2009. As of last fall, Ayaz was not optimistic about the firm's chances of success (ref A). Since then, resolution of the siting issue for the Kuwait National Petroleum Company (KNPC) refinery, and sustained high level attention from senior Chevron executives appear to have turned the tide.

Kuwait Refinery Dispute Clouded Extension

¶3. (C) KNPC had proposed a 600,00 barrel per day (bpd)

refinery on the site of existing and future Chevron operations in the PNZ. Chevron Arabia has continually maintained the refinery would place at risk their ability to operate their PNZ oil concession. Over the last six months, Assistant Petroleum Minister Prince Abdulaziz and Chevron proposed three alternate sites. The Kuwaitis finally appear to have settled on one site, clearing the way for the final extension of the Chevron concession.

Steam Flood Technology Helped
Chevron Clinch the Deal

14. (SBU) Throughout the negotiation, Chevron has emphasized the importance of their proprietary steam flood technology to re-securing the concession. The PNZ's Wafra Main Area and South Umm Gudair reservoirs (Ratawi, Wara, and Burgan fields) provide nearly 70 percent of the PNZ's approximately 500,000 barrel per day production, and produce predominantly light crude. However, much of the heavy crude in reservoirs such as Eocene currently lies inaccessible. Chevron has successfully concluded a Small Scale Test for steamflood technology in the PNZ. It has now embarked on the Large Scale Pilot, in which it is carrying out detailed design, engineering, and equipment procurement. Chevron has successfully utilized steam-flood technology in California in sandstone, but testing in the PNZ is its first use of the technology in limestone carbonate. If successful, utilization of steam flood technology in carbonate reservoirs offers the opportunity for enhanced extraction of heavy oil not only throughout the PNZ, but throughout similar formations in Saudi Arabia, Kuwait, and the region.

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Comment

15. (C) Chevron's extension of its concession is an important win for U.S. business. Chevron operations are the last foreign operations in the upstream oil in Saudi Arabia. They provide at least a toehold for re-entry if and when Saudi Arabia ever decides to open its upstream to foreign investment. While we don't view such an event as likely under Minister Naimi or this generation of leadership, a new generation of leadership could see the advantages in opening the sector to competition.

16. (C) More significantly for the present, Chevron's steam-flood technology offers the application of proprietary American systems which neither Saudi Aramco or Kuwait National Petroleum Company could bring to the table. Chevron's technology will prove a catalyst to access new reservoirs and higher rates of production in the PNZ than otherwise possible. Steam flood offers a win-win as energy markets push to identify new sources of supply, and the Saudis appear to be straining to maintain production. Energy Intelligence estimates that international oil companies now control a scant 7 percent of the world's oil reserves. For U.S. firms, the lesson seems clear. Despite Chevron's long history in the Kingdom - it discovered oil here in the 1930s as Standard Oil of California - access to proprietary, cutting-edge technology proved key to maintaining its position in Saudi Arabia.

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